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A PLEA

for the

MIXED ECONOMY

by

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A PLEA FOR THE MIXED ECONOMY

A sound approach to the problem of India's industrialisation and the bearing on it of the structure, ownership and control of our industries is only possible if it is based on an objective survey of the economic scene. What is our economic position today, and what is our most pressing need? The first thing that hits the eye is that India is still very near the beginning of her Industrial Revolution. Our production of finished steel in 1945 was 1.2 million tons—approximately that of tiny countries like Belgium and Sweden—while the U.K. produced 12.4 million tons and the U.S.A. 65.2 million tons. Taking another yardstick of industrial development, namely, electric power, the contrast is equally painful. Taking the total consumption of electrical energy in India in 1939 as one unit of consumption, Italy consumed 10 units in that year, France 13, the U.K. 20, Germany 37 and the U.S.A. 77. One could go on making such depressing comparisons *ad nauseam*.

We had all hoped that, with the end of the war, India would take giant strides forward towards industrialisation. Two years have passed since the end of World War II and, far from marking any advance, these years have seen a constant fall in our production, both industrial and agricultural. The

production of finished steel which, as mentioned earlier, was 1,200,000 tons in 1945 had fallen in 1946 to 892,000 tons, electrical energy from 194 million units to 177 million units, and cloth from 4,850 million yards to 4,020 million yards. Despatches of coal, which were at the rate of 2.11 million tons per month in 1945, had fallen in 1946 to 1.9 million tons *per mensem*, and have shown no improvement this year. Foodgrains are no exception, showing a fall from the war-time figure of 56 million tons to 50 million tons. Alongside of all this, our population goes on increasing at the rate of 5 million per year. The price level keeps on rising, and we are faced with the prospect of further inflation. This then is what a bird's-eye view of the economic scene reveals.

In the light of this situation, what is our most burning need ? The answer obviously is increased production. I do not think that Mr. C. Rajagopalachariar pitched it at all too high when, as Minister for Industries and Supplies in the Interim Government, he asked us in April last to "make a religion of production." Unfortunately, very little has been done in response to that appeal and our plight gets every month a little worse.

I can sense through the minds of some younger idealists the thought passing: "Increased production, yes ; but what about equitable distribution ?" I am

as sensible of this aspect of the matter as any. The gross inequalities which disfigure our economic and social life are patent to all and it would be intolerable if the benefits of increased production were to be monopolised by small sections who are already favourably placed. Not only would such a development be deplorable from the point of view of social justice, it would be equally retrograde from a purely economic point of view because increased production would lose much of its value if it was not accompanied by increased purchasing power in the hands of our toiling masses.

Having said this, it is necessary to emphasise the need for not getting mixed up in our priorities. Equitable distribution is important, and must follow close on the heels of production, but it has no meaning unless first there is increased production. We can have equitable, and even equal, distribution of our national income today. Let us see what that would mean. It would mean, in terms of the inflated rupee, a *per capita* income of about Rs. 130 per annum or Rs. 11 per month. For a family of four, it would mean a monthly income of Rs. 44. That is hardly an objective to strive for, and most of our working people would rightly reject it with contempt. The question is : "Do we all want to swim together or sink together"? There can be only one answer—that

the economics of production must take precedence over the economics of distribution. It follows that anything that comes in the way of increased production today is not only anti-national but is also antisocialist.

It is in this context that we have to consider the proposal mooted in certain quarters that all our industries should be nationalised. First of all it is important that we get our definitions right. "Nationalisation" is a word which is used by people of diverse economic creeds each in furtherance of their own arguments. It is important, therefore, to be clear about its meaning and to understand its extent and its limits. As defined by the Oxford Dictionary, "Nationalisation" is "the action of bringing land, property and industries under the control of the nation." To nationalise is "to vest the control, ownership, or the like of in the nation." It is clear that national control, whether or not it is accompanied by national ownership, amounts to nationalisation in the correct sense of the word. Socialists and other adherents of the collectivist schools of thought use the word, however, in a narrower sense as implying State ownership and management. In order to avoid confusion, it is best as far as possible to avoid reference to the word and to use the terms State Control on the one hand and State Ownership and Management on the other.

I know of no sounder approach to the problem of the role of the State in industry than that underlying the words of Mr. Herbert Morrison, a member of the British Socialist Government:

“ People have been known to go red in the face or blue or both red and blue, in discussing it either as pro-nationalisers or anti-nationalisers.

“ There is however no real need for excessive excitement, for the question to be decided is whether, in the circumstances, the industry is likely to be better run by free competitive private enterprise, or controlled and supervised monopoly enterprise, or by public enterprise of one sort or another.....

“ It is up to nationalisers to prove their case that there will be public advantage by nationalisation. It is no less up to the anti-nationalisers to prove their case that the public interest can best be served by private ownership.”

Let us then in that pragmatic spirit put to ourselves the question : *“ Is State Ownership and Management of industries the answer to our needs ? ”* The question has only to be put to be answered. It is surely obvious that by discouraging enterprise and frightening away the already timid Indian investor on the one hand and by adding to our already low efficiency the burdens of bureaucratic red tape and inertia on the other, a policy of transferring our industries to State ownership and management would give a deadly blow to

any possibility that we may have of rapid industrialisation. Not a single problem that faces us would be solved by such a step. Take, for instance, the sugar industry. India needs for its people some 20 lakhs of tons of sugar in the year. In 1942, our indigenous production was of the order of $12\frac{1}{2}$ lakhs of tons. By 1946-47, it had fallen to $9\frac{1}{4}$ lakhs of tons. Out of 173 sugar factories in the country, only 143 were able to remain in operation during the last season. The cause of this was the shortage of sugar-cane. In what way would the nationalisation of the sugar industry improve by a hair's breadth the production of sugar in this country? It would be a complete irrelevance.

A Contrast

It is better to be guided by facts than by expectations, and the proof of the pudding is always in the eating. Why not, therefore, compare the working of Free Enterprise on the one hand and of Nationalised Economy on the other in those two Great Powers which are exemplars of these respective systems? We have, on the one hand, the United States of America. With six per cent of the world's population, it manufactures a volume of industrial goods which is greater than that of the rest of the world put together. It produces today half as much food again as it did in the years before the war. It has achieved for its

people the highest standard of living known in the world's history. In the last 35 years, under a regime of Free Enterprise, the average expectation of life of the U.S. citizen has gone up by 19 years from 46 to 65. All this has been achieved with the fullest democracy and individual liberty. We in this country, as indeed do almost all countries in Europe and Asia, look today to the United States for the capital goods with which we hope to industrialise our own country. For the past few years, the United States have been the biggest contributor of the foodgrains which we have imported to keep alive. If today there is disequilibrium in world trade, it is not because Free Enterprise in the United States fails to produce the goods for the world's markets, but because the rest of the world is so placed that it cannot produce anything to give to the U.S.A. in return.

Now let us turn to the other side of the medal, to scan the only example in the world of a completely nationalised economy. We read in our papers a little while back that our Ambassador in Moscow had to fly all the way to Stockholm to get furniture and furnishing material for our Moscow Embassy ! It is a small incident but it illuminates the scene better than any statistics can do. Economists, however, will be satisfied with nothing less than solid figures. Well, according to that eminent economist,

Colin Clark, in his *Conditions of Economic Progress*, the national income of Russia, calculated on the basis of production per head of working population, rose from 1913 to 1937 by 24 per cent. Not bad, but not good either. During the same period, Japan showed an increase in her national income of 105 per cent, Sweden of 69 per cent, Australia of 63 per cent, while even mature and already highly industrialised countries like the U.K. and the U.S.A. showed a continuing rise of 32 per cent and 25 per cent respectively. In the light of these figures, the much advertised gains of nationalised production turn out to be a bit elusive. My last visit to Russia was in 1935. Another visitor about that time was William Ewer, a keen socialist and then as now Foreign Editor of the British Labour Party's *Daily Herald*. He was more fortunate than I in being able to visit Moscow during the recent Foreign Ministers' Conference in April and May this year, and in a series of articles in the *Daily Herald* he has compared his present impression of Moscow with the previous one :

‘ It looks very much as 20 years ago, only far shabbier ; and not only the shabbiness of London after seven years of war and a paint famine. These Moscow buildings—whether offices or houses—are beginning to crumble for want of care and maintenance. Unless something is done quickly they will in a few years be beyond repair...The

people looked much as I had expected. Just ordinary working folk in their ordinary winter wear. A bit shabbier than they should be, but that one expects after a war.

And then came the first shocks. First the lane of ragged—terribly ragged—street sellers in the square by the Bolshoi Theatre ; many of them children who should still have been at school. They were selling matches or bootlaces or pins, almost anything that can be held in the hand. Later, in other parts of the town, I was to see pathetic figures holding out a few lumps of sugar for sale in grimy palms. Sugar, because of the draught in the Ukraine, is terribly scarce.....But these people were selling their tiny rations of sugar so that they could buy a little more black bread.....This, and a few old women openly begging, were my first warning of the pitiful conditions of the poorer folk of Moscow in 1947. They are underfed, they are ragged.....They are as they were when first I saw Moscow five and twenty years ago, when there was famine on the Volga and the Soviet regime was still struggling to exist.....

But that is only one side of the picture. I was standing watching a bunch of tattered—trousered, whitefaced school-boys—or boys who should have been schoolboys—when along the street came another of the younger generation of Soviet citizens.....She was, I should say, eleven or twelve. She wore a rich fur coat, with fur cap to match. And she sauntered past those ragged urchins with that air of slightly

arrogant assurance that stamps the spoiled child of well-to-do parents the world over.....Here was certainly something new and to me, I confess, a little shocking. I had been prepared for evidence of poverty, but not for evidence of personal wealth amid the poverty. I got used to it later...

There are, of course, no classes in the Soviet Union. I have been solemnly assured by Russians that there are no rich and no poor. Yet there are certainly a lot of people who are ragged, appallingly ill-housed and visibly undernourished. And equally certainly there are a few who are very well-clad, well-fed, well-housed and able to eat and drink and dance in appallingly expensive restaurants..... Who are they ? High officers, writers, actors, dancers, the more fortunate members of the professions.....The divergence of incomes is astonishingly wide. Unskilled workers—for example, the sturdy women who shovel the snow from the streets—get 275 roubles a month.....A Soviet journalist assured me with pride that a popular writer, or a doctor or lawyer, with a good private practice, could make as much as 40,000 a month—130 times as much as an unskilled worker. And there is no steeply graded income tax to level things up.....

The whole idea of levelling is anathema in Russia today. It is—I quote from an article in the **Bolshevik**—a “petty bourgeois notion of Socialism.” Great inequalities of income are the result of deliberate policy. They are defended as “a powerful instrument in accelerating the

tempos of production and improving productive forces "...

'Equality of opportunity' is also out of fashion. "Suppose," I asked, "a boy thinks he would like to be a doctor?"

"If his parents can afford it he will go to a secondary school, Mr. Ewer,"

"In the Soviet Union, Mr. Ewer," came another revealing boast, "a man of your position could feel that his children and grandchildren have security. You see, you would not only be able to leave them money, but as the children of an eminent man, they would have more consideration." Very flattering to me—but very odd Socialism.'

Facts such as these make hot-gospellers of nationalisation a little impatient and irritable. They rarely face them, but seek to explain them away. Now, I am prepared to concede that the great contrast between American prosperity and Russian destitution is not wholly due to the differing systems of production, and that other factors like race, history and technique contribute to it, but the system of production is none the less an important factor.

The trouble with ardent nationalists is that they rarely argue their case and one has yet to see a single effort by an Indian publicist or writer showing precisely how State ownership and management of industries would increase production and help the country. Their advocacy consists mainly in the reiteration of

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a slogan. On the basis, however, of what little material is available, it would be fair to say that the case for nationalisation in India rests, apart from a negative satisfaction at the destruction of capitalism, on the following argument. First, nationalisation would eliminate the high profits that are at present being made, and the State could obtain cheaper capital than Free Enterprise. Secondly, nationalisation would give an incentive to the workers to work harder and produce more because the factories would no longer belong to the capitalists but to the State on behalf of the entire community. These two factors, it is argued, would make for greater efficiency, increased production and more rapid industrialisation. Let us try dispassionately to examine this argument and see to what extent it is valid.

Capital

First, let us take up the question of profits, which is only too often discussed these days in a somewhat emotional manner suggestive of the proposition that profits are some kind of theft. Economists know, however, that just as wages are the price paid for labour, profits are the price paid for certain definite services. First, as rewards for enterprise and managerial capacity and as compensation for loss or risk of loss. Secondly, to be used for purposes of replacement and expansion of plant. Thirdly,

as reserves against a time when earnings might decline, thus preserving jobs and workers' earnings during possible unfavourable periods. The fallacy that every rupee of profit is something abstracted from the workers' earnings is based on the conception of a static fund from which wages, interest and profit have all to be drawn. As a matter of fact, however, it is general knowledge that when profits increase, labour, management and capital all generally share in the benefits, and conversely higher wages, can, though not necessarily, result in higher profits through stimulating the productivity of labour.

Enterprise is rather a nebulous term. It may perhaps be described as the exercise jointly of a number of qualities such as initiative, originality, ingenuity, faith, push, the ability to plan and the courage to take risks. Now, who can expect these qualities from Government officials or from Government departments? How many Civil Servants are known for giving quick decisions on any important subject? Whoever heard of Government departments being prepared to take risks?

That is true of bureaucracies in all countries, and even truer of ours. Nationalisation means monopoly, and the inefficiency of the Indian State Railways and the shabby way they treat their Third Class passengers give a foretaste of what we may expect.

I cannot do better, in describing our present system of administration, than quote Dr. John Matthai, for whom I have the greatest respect and regard. When he was Minister for Industries and Civil Supplies in the Interim Government last year, he described our system of administration in the Central Legislative Assembly as "an administrative system which had grown up through the years with an entirely negative outlook. We had at present an administrative organisation in the country, the main business of which had been to prevent things being done and to maintain law and order. It was a police Government on the foundation of which they had to erect a system of regulation rather than prevention."

Speaking again on the Railway Budget on February 20 this year as the Transport Minister, Dr. Matthai, while defending the proposal to increase fares, warned the House that the country must not launch on an extensive programme of nationalisation without fully weighing difficulties of various kinds which they in India had yet to size up and appreciate.

It would appear from all this that Dr. Matthai is quite aware that the State is not likely to become an efficient industrialist and he has in later pronouncements conceded the need for Free Enterprise to play an important part in the industrialisation of India. Dr. Matthai, however, wants industrialists and

investors to expect substantially lower rates of profit and return on capital than they have been used to so far. One fully sympathises with Dr. Matthai's desire and, if there is any margin of the nature that he envisages, certainly it is a demand which can be made on patriotic investors and industrialists just as demands are being made on other sections of the people who are less favourably situated. But is there any such margin, particularly after the last Budget ?

Judging by articles and pronouncements in the press, one feels that popular ideas about the quantum of profits are rather exaggerated. I have tried to secure figures of total or average profits made in this country over a period of years but without success. One can, however, get some idea of the popular misconception on this subject by looking at figures obtaining in the United States. Not long ago, a poll of public opinion was taken there in which a large cross-section of clerical and manual employees was asked to make a guess at what per cent profit the average American manufacturer makes in peacetime. Of those answering the question, more than 60 per cent thought that profits exceeded 25 per cent. In response to another question, these same people said that they thought 10 per cent would be "a fair profit." According to Mr. Henry Ford II, however, in the fifteen years from 1925 to 1940, all manufacturing corporations in the U.S.A.

combined earned only 3.3 per cent on their invested capital. In only one year did profits rise above 6 per cent, and that was in 1929 when they were 6.6 per cent on invested capital.

An esteemed academic friend recently urged on me that if the Government of India can borrow money at round about 3 per cent, private investors should not expect a materially higher rate of return either. That surely is a misleading comparison. There are two factors to which attention needs to be devoted in this context. The first is a comparison of the quantum of money which Government borrows or can hope to borrow over a continuing number of years and that which is sunk in industrial enterprises. Can Government expect to raise several times the amount of money they raise at present without having to pay rates of interest which are substantially higher ? The other factor is the difference between the purposes for which such moneys are borrowed by Government and by industrial corporations. Investment in Government Paper carries with it a certainty and a painlessness at which even 3 per cent becomes attractive. That return is earned without risk, without fighting battles of production, without trouble with Labour Unions and strikes—in fact, one may say, without effort. There are several new companies on the other hand which are unable to pay any dividend for several

years on end. Is that the kind of risk which investors in Government Paper are prepared to take ? And if not, is it fair to ask private investors who have not got an anna of return on their savings over long years to be content with 3 per cent when at long last production gets going ? Surely, if all industries were to be State owned and managed and Government were to decide to launch on all manner of risky and uncertain enterprises and experiments, can investors be expected to have the same faith in State securities ?

I am glad to be fortified in this view by the conclusions to which Mr. Manu Subedar has come in the course of a Report on the financial position of the Cawnpore Municipality just submitted by him to the U. P. Government in response to an invitation from the Prime Minister of that province. According to a press summary of that Report, Mr. Subedar has come to the conclusion that "the era of cheap money appears to have reached its peak. The tide has turned in the United Kingdom, and it is bound to turn in India. The days when unlimited amounts of money could be picked up by Government in the market have gone. The highest credit would necessarily get the lowest rate. For purposes of a safe estimate, he would not put the municipal borrowing rate at less than $4\frac{1}{2}$ per cent."

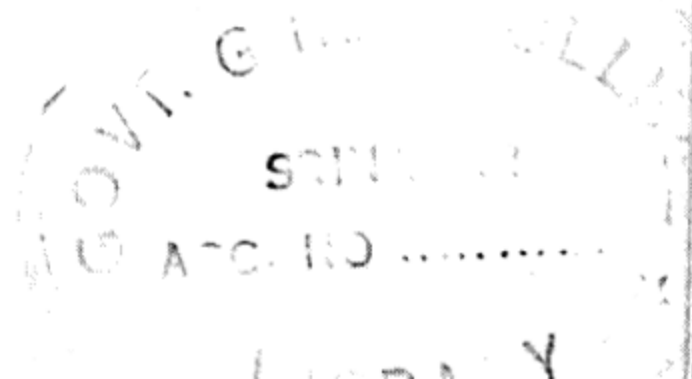
I would suggest to my academic friend that we shall get a fairer picture of what the State in India would have to pay, if it were to decide to nationalise industries, if we turn our eyes to Russia where, after twenty-seven years of professed "Communism", people investing in Government Bonds are paid interest at $7\frac{1}{2}$ per cent, while depositors in Post Office savings banks are paid 8 per cent free of any income tax or inheritance tax. I am not suggesting that we need be quite as pro-rentier as the Russian regime, but it certainly gives an idea of the realities facing industrially backward countries like ours and theirs.

Even as things are, the prospects of our obtaining adequate industrial capital are not very bright. To start with, the Indian Union will have an unfavourable balance of international payments. As against our exports in the coming years and the releases we may secure out of our sterling balances, we shall have certain indispensable imports of cotton, of machinery adequate for replacement alone and of foodgrains which will be of higher value. During the year 1946-47 alone we had to utilise over Rs. 100 crores of our sterling balances for financing such imports. These must continue. There will thus be no margin left whatsoever for the import into the Indian Union of capital goods for industrial expansion.

Turning homewards, with taxation at the present

level it is not likely that anything more can be obtained in the way of taxes, though I have a feeling that proper enforcement of existing taxes would yield something more. Nor can we expect any serious economies in our public expenditure faced as we are with the recommendations of the Pay Commission and a likely demand for increased military expenditure. There remains domestic borrowing. Unfortunately, even this source will not be available for industrial expansion since, in view of our plight in regard to food production, anything between a third and a half of this may be needed for capital expenditure on irrigation alone, while the balance will hardly suffice for a little education and even less public health.

The conclusion to which we are therefore forced to come is that we shall have hardly any capital at all available in the next few years for industrial expansion. India's industrial advance, whether we like it or not, must consequently depend in the main on the pace of imports of capital goods which may be made available to us either through loans from foreign countries or by investment of foreign capital in industrial enterprises in the Indian Union. What chances we would have of securing such credits or capital if we were to indulge in doctrinaire experimentation and not be prepared first of all to put our house in order is worth considering.



Labour

The second factor on which advocates of nationalisation base their hopes is that of better co-operation and greater efficiency on the part of Labour in State owned and managed industries. It is suprising that, after all the experience that has become available recently, such a plea is still to be heard. In Britain, judging by these claims, one would have thought that the coal miner, after the nationalisation of the mines for which he had been clamouring for twenty years, would have got down to it to increase his output. The figures, however, tell a disappointing tale. According to the *Financial Times* of September 2, 1947, while the average weekly output per mine worker in 1938 was 5.6 tons, in 1946 after nationalisation the weekly output had fallen to 5.0 tons.

The story goes that when recently Mr. Attlee, the British Premier, addressed a meeting in his constituency, someone in the audience charged the Labour Government with not having lived up to its election promises. When Mr. Attlee asked the heckler to explain himself, the reply was : " Your Government promised us more pay and less work. Well, we delivered the less work—where is the more pay ? "

Faced with this situation, Mr. Emannuel Shinwell, the Minister for Mines, had occasion, when addressing the National Union of Mineworkers on July 10, 1947,

to administer a stern warning to the miners. On the subject of strikes and absenteeism, Mr. Shinwell said :

*“ If there are any men or officials in the mining industry who are not ready to play ball, they have got to be dealt with in the most drastic fashion, because the nation cannot afford any monkey tricks. Anyone who absents himself from work without due cause, having succeeded in achieving the five-day week, is rendering a disservice to the nation. Every single ton of coal lost in consequence of absenteeism or failure to work regularly renders my work more difficult, makes the economic problem that faces the Government more acute, and makes things very difficult for the miners’ leaders and the Coal Board.....
.....Among the men themselves there are 90 per cent who are pulling their weight and I tell the nation that I am proud of them. As for the other 10 per cent, they had better look out. We cannot afford to stand any nonsense.”*

As if in reply to Mr. Shinwell’s threat, 40,000 miners in South Yorkshire went on an illegal strike for over one month in spite of the fact that the decision against which they have gone on strike was taken by a joint committee of the National Coal Board and the Mineworkers’ Union. Mr. Shinwell, despite his threats, was able to do exactly nothing about it.

Experience in France has been just as bad, with the result that on May 27, the French Socialist Premier M. Ramadier, had to make a stern appeal to the gas

and electricity workers recalling that in the past these workers had never struck despite their many conflicts with employers before nationalisation. "You are no longer serving an owner" he said. "Your work no longer swells capitalists' pockets. You are directly serving the nation". His appeal, however, brought no change in the deadlock.

In Czechoslovakia, another country where nationalisation has been imposed over a large field, a Communist deputy, Zapotocki addressing the Trade Union Council on July 8, 1947, complained, according to *East Europe* of July 17, 1947, that "while private enterprises were making full use of all available labour, labour discipline and morale had still not been properly established in nationalised enterprise. That was why production in nationalised enterprise had dropped."

Coming nearer home, we have not yet forgotten the last Postal strike, nor how near we came to an All-India Railway strike, and in neither instance was the attitude of labour particularly conciliatory because it was the State and not a capitalist who was the employer. In fact, it is obvious that Governments which are dependent for their tenure in office on votes at election time are peculiarly amenable to unreasonable pressure from the workers. State ownership and management, by making the State

itself the only employer, eliminate the State as a valuable mediator or arbitrator between management and labour.

The conclusion is irresistible that not only are State ownership and management not the answer to our needs, but that that way lie destitution and dictatorship.

Political Implications

That brings one to the political implications of a nationalised economy under present day conditions. I do not want to enlarge here on a topic which can be the subject of an essay in itself, namely, the nature of the totalitarian dictatorship that has arisen on the foundations of nationalised economy in Russia. There is no room here to analyse the fraud of "economic democracy" in Russia that is being spread in certain quarters or the reality of Industrial Feudalism that exists in that country, where workers are tied to their jobs by labour cards and internal passports just as the serfs in mediaeval times were tied to the lands of their lords, where even today women work underground in mines, where, on admissions made in the Moscow press, wages and bonuses of factory workers have been held back for months after they had become due, where the penalty for going on strike is death, where along with these so-called "free" workers there are some ten to fifteen million

slave labourers in the camps of the M.V.D., the secret police, who hire them out like cattle to "nationalised" industries. Anyone who wishes to know the grim truth will find the facts in Eric Straus' *Soviet Russia*, in Timasheff's *The Great Retreat* and in Koesler's *The Yogi and The Commissar*, corroborated by the personal testimony of Russian Communist officials in Victor Kravchenko's *I Chose Freedom* and Alexander Barmine's *One Who Survived*, to mention off-hand just a few titles that come to mind. Perhaps, however, nothing will convince people in this country as much as the testimony of India's own socialist leader, Jayaprakash Narayan, for whom I have the greatest regard and who I am convinced is going to play a most important part in time to come in our national life. In a statement of policy which was presented by him to the Socialist Party's Convention at Cawnpore earlier this year and which has been accepted by the Party, the Socialist Party's attitude is defined as follows :—

'The main choice today is between democratic socialism and totalitarian communism. In totalitarian communism, to which it is wrong to apply the name of socialism, every other party but the ruling party is suppressed ; there is no opposition permitted to the Government, i.e., to the bureaucracy in power ; the Trade Unions are not independent organisations of the workers but subordinate

limbs of the all-powerful State and ruling party. Under such "socialism", as totalitarian communism is sometimes called, the individual is not free and enjoys no protection against arbitrary loss of his already restricted freedom, his job or even his life. The State in such a system acquires an unchallenged control over the life, liberty and happiness of its subjects. On the other hand, thanks to the single party system the State passes entirely out of the democratic control of the community of workers and becomes a tool in the hands of the ruling clique of the only party in existence. Party leaders and leaders of industry, agriculture and the armed forces become a class apart from the mass of workers, perpetuating themselves through a system of special privileges, drawing incomes far in excess of ordinary wages, ruling in the name of the workers but wholly beyond their control. The Socialist Party rejects such "socialism." The socialist society which it aims at is a society in which there is the fullest economic and political democracy'.

One heartily welcomes this declaration by the Socialist Party and I am glad that it has categorically rejected the nationalised economy of Russia as repugnant to any kind of Socialism. But while Jayaprakash and the Socialist Party reject totalitarian communism, many socialists in India would like to use the same technique of production, hoping all the while that they will be able to tread in the footsteps of Democratic Socialist Parties such as those that have

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influenced so beneficially the social and economic life of Britain, Australia, New Zealand and the Scandinavian countries.

There are two factors, however, that they are apt to overlook in their calculations. First, that these countries have only nationalised a bare fringe of their industrial life. In the Scandinavian countries and in New Zealand, it is the Co-operative Movement and not the State that dominates production. In Britain too, Mr. Herbert Morrison has made it clear that even after ten years of Labour Government, 85 per cent of British industry will still be run by Free Enterprise.

Secondly, can we really afford to expect similar results as those achieved by the Anglo-Saxon and the Scandinavian peoples? Have we, like them, a long history of democratic and parliamentary Government? Have we, with our unfortunate history of Maharajahs and Nawabs and of foreign rule, a sturdy tradition of individual liberties which these countries have been fortunate enough to possess? And if we had any illusions, have not the events of the past few weeks and days opened our eyes to the real level of political consciousness prevailing among the masses of our people? Respect for the human personality and tolerance of minorities, whether political or religious, and for their points of view are the very essence

of democracy. With what is happening before our eyes to members of minority communities in both India and Pakistan, have we a right to feel so sure that we shall succeed where Russia has failed ? Only those who are Utopians in their political thinking can entertain such a hope. Democracy in India is a very frail plant which will have to be tenderly nurtured over long years and it would be quite incapable of bearing the added burden of a centralised and collectivised economy.

It is obvious that, so far as socialists are concerned, the urge for nationalisation is based on a desire for the elimination of Money Power in politics and the extension of democracy from the political to the social and economic sphere. The removal of these blemishes and imperfections in political democracy is certainly necessary. But let us not surrender the partial in reaching out vainly for the whole. If Money Power is dangerous, a combination of political and economic power, as in a nationalised economy where the State is the universal employer and the sole producer, will be doubly dangerous to liberty. As Keynes once said : " It is better to let people tyrannise over their bank balance than over their fellow-men". Those socialists who aspire to follow the Russian technique while hoping to escape the Russian horrors remind one of that amiable character in Dickens, Mr. Micawber,

who was always waiting for something to turn up to help him out.

It is a welcome sign, however, that a small but increasing number of socialists in all countries is coming to realise that, in the light of historical experience, a major revision in the methods of achieving socialism has become necessary ; that nationalisation is a mere technique and not an end in itself, and that even at that it is a rather rusty and out-worn weapon to brandish. It was once said in regard to adult franchise in the days of Disraeli and Gladstone that " while the Whigs were bathing, the Tories ran away with their clothes." Something like that has happened in our time in regard to nationalisation, for while the Democratic Socialists were in the bath-tub indulging in their day dreams, the Fascists and the Communists have run away with their suit of nationalised economy. Unfortunately, there is a Conservatism of the Left just as stubborn as the Conservatism of the Right, and even outworn dogmas are hard to discard. It is easy to prefer the abstract to the concrete and easier to lay all the blame for the world's ills on one particular abstraction like Capitalism than to face the complexities of the situation.

The Mixed Economy

The rejection of a policy of State ownership and management of industries as being disastrous to our

economic development need not lead one to be content with the *status quo* or the present drift. I shall therefore endeavour to outline a picture of the kind of economy which in my view can be relied upon to take us more quickly to the goal of a "free and equal society" than total State ownership and management. I would call that economy the Mixed Economy. I put it forward not as a poor substitute, nor as a mere halfway house to, the real thing, but as a better, more scientific and more modern method of working for the same ends than the so-called "scientific socialism" of the nineteenth century, at least so far as our own generation is concerned. If after that an advance towards complete socialisation can be democratically achieved, nobody will be as happy as I, posthumously, would be.

I do not see how, with the experience that we have already acquired, we can seriously take exception to the conclusion arrived at by Professor Hayek in his book *The Road to Serfdom* that total planning means total slavery. The right answer to Professor Hayek is that given by a British socialist, Barbara Wooton, who says that the secret of success in planning lies in knowing where to stop. She gives an apt example by pointing out that because railway timetables have to be worked out for co-ordinating the running of trains, it does not follow that the reading matter and

conversation of passengers need be either planned or controlled. Applying that sound principle, the Mixed Economy would know where to stop. It would stop short of creating a monopoly of any one form or technique of production. It would be mixed in the sense that it would keep alive and stimulate, at the same time, state enterprise and free enterprise, peasant proprietorship and co-operative farming.

The vital importance of avoiding a monopoly of any kind and of keeping autonomous social forces working has been brought out in an extremely cogent fashion by Professor James Burnham of New York University, one of the most original and stimulating minds among the writers of our generation. In his book *The Machiavellians*, Burnham writes :—

“ Liberty or freedom means above all the existence of a public opposition to the governing elite.....

Only power restrains power. That restraining power is expressed in the existence and activity of oppositions.....
.....But when all opposition is destroyed, there is no longer any limit to what power may do.

The right of public opposition to the rulers, the heart of freedom, will not be kept alive merely by wishing—and it is besides very doubtful that a majority of men are much concerned about it one way or the other. It requires the existence in society of a number of relatively autonomous “ social forces,” as Mosca calls them. It demands that no

single social force—the army or liquid wealth or the Church or industrial management or agriculture or labour or the state machine, whatever it might be—shall be strong enough to swallow up the rest and thereby be in a position to dominate all phases of social life. When this happens, there cannot be a significant opposition to the rulers, because the opposition cannot have any social weight and therefore cannot restrain the power of the rulers. It is only when there are several different major social forces, not wholly subordinate to any one social force, that there can be any assurance of liberty, since only then is there the mutual check and balance that is able to chain power.....

Not unity but difference, not the modern state but whatever is able to maintain itself against the state, not leaders but the unyielding opponents of leaders, not conformity with official opinion but persisting criticism, are the defences of freedom”.

There are certain things that need to be stressed in making an approach to the Mixed Economy. The first is that our approach must be free from dogma of any kind and that we must always remember to put first things first. The second thing to stress is that India is big enough for all forms of production to be tried out at the same time and that, since we are still at the beginning of our Industrial Revolution, the mere nationalisation of existing enterprises would in any event touch only the fringe of the problem

that faces us. The third factor in our approach is to make the fullest use of the great contribution that has been made to economic thought in our country by Mahatma Gandhi, namely, the emphasis on decentralisation of industry and of its control.

The fourth thing to do is to shift the emphasis from the State to increasing workers' control over industries and to foster the partnership of Labour both in the administration of industry and its fruits. The ungrudging acceptance by industrialists of their workers as human beings and as partners, the use of latent talent by inviting Labour representatives to sit on the Boards of Directors of industrial corporations, and direct relations between Management and Labour across the conference table are among the urgent needs of Indian industry. The French Law on Works Committees enacted on May 16, 1946, is a useful code to study in this connection and it is encouraging that Mr. Gulzarilal Nanda, Bombay's Labour Minister, recently stressed the importance of joint committees by saying that this would be a much better way than placing the industries under official control. A similar conclusion has been arrived at by the Industrial Planning Committee set up by the Madras Government which, after sounding a note of caution in regard to the adoption of any far-reaching policy of nationalisation of industries, stresses the need for

the establishment of industrial democracy, in which control of industry should be shared by Management and Labour under the general supervision of the State.

Fifth and last, the Mixed Economy will depend less on ownership and management and more on control to see that the interests of the community reign supreme. In a recent speech in Bombay, Dr. Henry F. Grady, the American Ambassador to India and himself a leading industrialist, gave a definition of enlightened capitalism which showed a welcome willingness to accept the kind of economy which I am outlining :

“My conception of capitalism is a self-disciplined system of liberty with certain governmental controls necessary because the economies of today are so intricate, but controls that release energies and initiative, not stifle them. Properly conceived and executed, controls will not restrict endeavour. They are not inconsistent with vigorous private enterprise. But they can needlessly grow and encroach unless we are constantly on the alert and maintain the happy mean between 19th Century laissez-faire and communist totalitarianism”.

An example of the kind of progressive capitalism that Dr. Grady has in mind, and which functions to a certain extent already in his country, is provided by what happened when the U.S.A. was faced in 1940

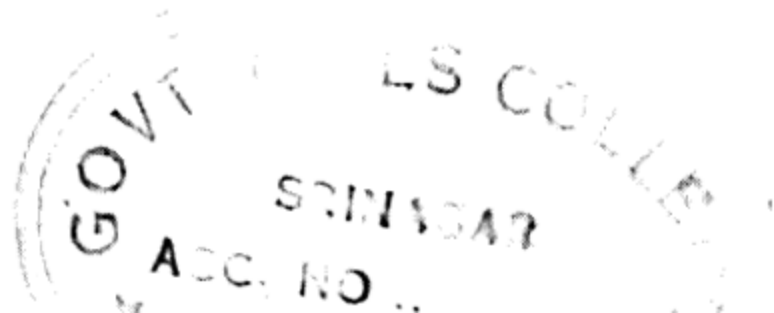
with a shortage of steel. In October 1940, the President ordered an inquiry. By February 1941, the first report was submitted to the President and in May the second report. In July, the President sought advice on expanding steel production by 15 million tons—an increase 15 times our own total steel production ! In September, the President authorised an expansion of 10 million tons. In December, fourteen months from the start of the investigation, a report was submitted to the President saying that the expansion of production was well under way.

Three Sectors

Based on these ideas, the structure of the Mixed Economy would be somewhat as follows. There would be three sectors. The first would be a very small sector of existing industries which may be nationalised. It needs to be made clear at this point that there is no need for the acceptance of any *a priori* nationalisation of basic and key industries. That is a dangerous fallacy, too easily conceded even by opponents of such measures. We have seen that State ownership and management are bound to impair efficiency and retard industrial progress. The fact that an industry is of a key or basic nature should be a special reason for protecting it from such a measure. If a basic industry tends to fall behind in the race for progress, it would undermine all industries and bring about the country's

decline. Nationalisation should therefore extend only to exceptional cases. In any such case, it would be a wise safeguard to provide that no industry can be nationalised until a Royal Commission—or whatever takes the place of a Royal Commission in a republic—has publicly investigated the condition of the industry and recommended its nationalisation.

The second sector would be a very much bigger one and that would be of fresh Public Enterprises. These would be mostly new industries, or new units in existing industries, established to the extent that Free Enterprise is found to be unable to meet the country's needs. The announcement made by Mr. C. Rajagopalachariar, when he was the Minister for Industries and Supplies in May 1947, of the Central Government's decision to establish two new steel plants as State enterprises is therefore a welcome one. Such State enterprises will not suffer from the defects of nationalisation as there will be no monopoly and it will be possible for the steel plants of the state as well as the existing ones founded by Free Enterprise to work side by side in healthy competition, provided of course such an experiment is not vitiated by special privileges or preferential treatment being accorded to the State units. We shall thus be in a position to compare notes and learn the lessons that such experiments will have to teach



and our final attitude towards State ownership and management can then be determined in the light of the experience gained.

In the case of both these sectors, the relations that are established between the Public Enterprises and the political authorities who control them on behalf of the community will have a decisive influence on both the efficiency of these enterprises and the welfare of the country. There is much to be said in favour of the largest measure of autonomy being given to such Corporations which should be run by small boards of able men conducting their industry on business lines, and answerable only in the last analysis through the Minister in charge to Parliament. There are examples of different kinds of such Corporations, particularly in Britain, such as the B. B. C., the Port of London Authority, the Central Electricity Board, the London Passenger Transport Board and, more recently, the Coal Board.

The third and largest sector of industry would be that of Free Enterprise. It should be realised, as Louis Fischer has put it, that "private enterprise is today a public utility". It should be encouraged and provided with all the necessary incentives, and with minimum controls for the purpose of planning and co-ordinating. Such controls would obviously

vary from, say, 5 per cent in one industry to perhaps 25 per cent in another.

Such a programme of State *plus* Free Enterprise is in fact the only practicable programme that any Government in India can possibly adopt in the coming years. It will be done anyhow, and it is important that it is done, not sullenly for lack of anything better, but with enthusiasm and drive. The only alternative to the acceptance of such a policy would be sterile class war and increasing misery for the people. Neither Free Enterprise nor the State is capable by itself of doing the job. The Mixed Society is the only one on the basis of which all classes of the Indian people can be rallied to a heroic effort to raise the country out of the morass of poverty, hunger, ignorance, disease and degradation.

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